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C O R R E C T E D C O P Y (REMOVED DECLAS INSTR)

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SUBJECT: Afghanistan-Pakistan Transit Trade Talks Postponed:
Charting a New Way Forward

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11. (SBU) Summary: Afghan Deputy Commerce Minister (and Chief Transit Trade Negotiator) Adib Farhadi told Embassy October 4, that the Pakistan side that day had requested a formal postponement of the upcoming fourth round of the Afghanistan-Pakistan Transit Trade Agreement (APTTA) until Islamabad received notification from the Afghanistan's Foreign Minister that the re-export/smuggling study (Refs A and B) will go ahead as planned and be incorporated into the APTTA. In the absence of Commerce Minister Shahrani (in the U.S. October 4-9), Farhadi is leading the effort to try to persuade the Foreign Ministry to reverse its stand to exclude the re-export/smuggling study. Looking for creative ways to bridge the impasse, Farhadi said that reciprocal side-letters on the re-export/Wagah issues would not work. However, he is open to the notion of "protocols," but only if they are approved by both parliaments and enforceable as international agreements. U.S. officials can usefully raise the protocol option and other creative solutions to end this impasse with Commerce Minister Shahrani now in Washington. We will also look to raise the issue with Foreign Minister Spanta. End summary.

12. (SBU) Chief APTTA Negotiator Farhadi told ECONCOUNS Oct. 4, that the Pakistan side had formally requested the upcoming fourth round of APTTA talks in Kabul be postponed until Afghanistan's Foreign Minister notifies Islamabad that the re-export/smuggling study will "go ahead as planned and be incorporated into the APTTA." Farhadi said he is disappointed because the decision sets back the talks, but added the lost time could be made up if the impasse is quickly bridged with the Foreign Ministry.

Strategic Trade-Off: the Wagah Crossing and Re-exports
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13. (SBU) Farhadi said the postponement may be a blessing in disguise since it gives both sides a chance to "get the issue right." He repeatedly stressed that omitting the re-export study from the APTTA, currently embodied only as a textual footnote, could compel the Pakistan side to withdraw its bracketed APTTA language on the Wagah border crossing. Such an outcome would set the talks back further and could be leaked to the press, aiding hard-liners on both sides opposed to making any concessions concerning re-exports and Indian market access.

14. (SBU) Farhadi said Pakistan's chief negotiator had already privately committed to a five-year transitional period giving Afghanistan unimpeded truck access to the Indian market -- but only in exchange for Afghanistan's compliance with the re-export study's recommendations, something that would be completed after the APTTA is signed. The Pakistan side needed the re-export study, he explained,

to ensure Indian goods are not re-exported back into Pakistan from Afghanistan. Farhadi opined that Pakistan is not seriously concerned with Western goods being re-exported into Pakistan from Afghanistan, but wants safeguards in place to prevent Indian goods from being smuggling into Pakistan and giving the Indians an export advantage without liberalizing overall trade flows.

Multi-year Plan to Open the Wagah Border

15. (SBU) In return for Afghanistan's full compliance with the re-export study's recommendations, Pakistan would:

--in Year One of the APTTA going into effect, permit Afghan trucks unimpeded access to the Pakistan side of the Wagah border.

--in Year Two, permit Afghan trucks unimpeded access to the Indian side of the Wagah border.

--in Year Three, permit Afghan trucks to return from India with certain Indian goods.

--In Year Four, permit Afghan trucks to return from India with an expanded number of Indian goods.

--In Year Five, grant Afghanistan full access to India in terms of transport and Indian imports.

Potential Solution: "Separate Protocols"

16. (SBU) Farhadi rejected the idea of separate side-letters addressing the Wagah/re-export issues because such a modality is not legislatively approved but constitutes an executive branch commitment that can be more easily modified. Nonetheless, he said he is open to introducing the notion of "protocols separate from but parallel with the APTTA" -- as long as they are approved by both parliaments and

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thus enforceable as international agreements.

17. (SBU) Farhadi's stated preferred course is to convince the Foreign Ministry to reverse its position on the re-export study. Short of that, he would turn to the protocol option, if it resonates with the Pakistan side.

Next Steps

18. (SBU) Farhadi repeatedly stated the APTTA issue does not receive careful Presidential review because other issues, notably the election outcome, "crowd it out." Despite these difficulties, Farhadi states he remains confident the fourth round could be held November 17-18, if the current impediments are overcome, and that the two sides can conclude the APTTA by the end of 2009.

19. (SBU) United States officials can usefully encourage Commerce Minister Shahrani (visiting Washington October 4-9) to continue seeking a creative solution (such as "separate but independent protocols") to address the impasse with the Foreign Ministry. We will also look to meet soon with Foreign Minister Spanta and engage him on the need to move forward.

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